


AR25

File 8

FRENCH PETROLEUM COMPANY OF CANADA LTD.



Ninth Annual Report
1965



Digitized by the Internet Archive
in 2023 with funding from
University of Alberta Library

https://archive.org/details/Fren1352_1965

FRENCH PETROLEUM COMPANY OF CANADA LTD.

DIRECTORS

J. C. BENEZIT	Paris, France
F. R. BERBIGIER	Paris, France
H. J. CHAMPIN	Paris, France
H. C. DE CIZANCOURT	Calgary, Alberta
F. C. COPE	Montreal, Quebec
J. d'EYSSAUTIER	Paris, France
W. T. HAMILTON	Calgary, Alberta
P. R. PAYN	Montreal, Quebec
J. J. SAUCIER	Calgary, Alberta
R. VAN DEN PERRE	Brussels, Belgium

OFFICERS

R. VAN DEN PERRE	<i>Chairman of the Board</i>
H. C. DE CIZANCOURT	<i>President</i>
W. T. HAMILTON	<i>Executive Vice-President</i>
H. J. CHAMPIN	<i>Vice-President</i>
S. B. LAING	<i>Treasurer</i>
W. G. TUCKER	<i>Secretary</i>

HEAD OFFICE

635 SIXTH AVENUE S.W., CALGARY, ALBERTA, CANADA

REGISTRARS

THE ROYAL TRUST COMPANY
Toronto Montreal
 Calgary

TRANSFER AGENTS

MONTREAL TRUST COMPANY
Toronto Montreal
 Calgary

EXCHANGE LISTINGS

TORONTO STOCK EXCHANGE
MONTREAL STOCK EXCHANGE

AUDITORS

PRICE WATERHOUSE & CO.

ANNUAL MEETING

The Annual Meeting of Shareholders of the Company will be held at the head office of the Company, 635 Sixth Avenue Southwest, Calgary, Alberta, at 2:30 p.m. on Friday, April 29, 1966.



STATISTICAL REVIEW

	1965	1964	1963	1962	1961
OPERATIONS					
Proven Oil Reserves (bbls.)	30,088,489	24,309,501	23,122,022	20,235,993	17,130,968
Probable Oil Reserves (bbls.)	9,922,122	12,900,740	11,801,123	10,073,100	12,916,125
Oil and Condensate Production (bbls./year)	988,907	999,736	1,046,494	875,955	722,583
Natural Gas Sales (mcf/year)	2,037,366	1,750,444	326,978	—	—
Gross Acreage (acres)	3,915,662	6,334,685	5,860,210	5,439,535	4,584,975
Net Acreage (acres)	2,491,711	4,165,070	3,104,070	2,312,815	1,556,110
FINANCIAL					
Revenue from Production (\$) (after royalty and production costs) . .	2,088,739	2,064,022	2,012,436	1,669,357	1,316,986
Total Income all Sources (\$) (after royalty and production costs) . .	2,107,504	2,079,687	2,031,824	1,696,262	1,359,544
Working Capital at December 31 (\$) . .	667,378	645,041	77,523	1,326,184	1,070,203

FRENCH PETROLEUM COMPANY OF CANADA LTD.

To The Shareholders:

For French Petroleum Company of Canada Ltd., 1965 was a year of continued progress in which gains were noted in both production income and proven reserves of gas and oil.

Natural gas sales rose 16.4% to an average of 5,581 mcf per day during 1965, while at the same time the Company's proven developed gas reserves increased to 93.4 billion cubic feet at year end from 89.6 billion cubic feet at the end of 1964.

Crude oil and condensate production averaged 2,709 barrels per day during the past year, a slight decrease from the previous year's daily average of 2,731 barrels. After providing for the year's total production of 988,907 barrels, your Company's remaining proven oil reserves at year end were estimated to be 30,088,489 barrels with probable additional reserves of 9,922,122 barrels. These totals compare with 24,309,501 barrels of proven and 12,900,740 barrels of probable oil reserves at the end of 1964 for a combined net increase of 2,800,370 barrels.

Gross revenue for the year from the sale of all production, less royalties, totalled \$2,380,966 as compared to \$2,331,293 in 1964. After payment of operating and administrative expenses, the Company's cash flow from operations during the year was \$1,662,902. Effective January 1, 1965, your Company adopted the full-cost method of accounting now in use by most exploration and producing companies in the industry. Using this method of accounting, wherein all costs relative to the exploration for and development of oil and gas reserves are capitalized and amortized on a unit-of-production basis, the net result of your Company's operations during the past year was a profit of \$805,055 which would compare with a profit of \$711,668 calculated on the same basis for 1964.

Your Company's working capital was augmented during the early part of 1965 by the sale of 50,000 Participating Preferred shares of its capital stock to Compagnie Francaise des Petroles at \$10 per share. At special general meetings held at the Company's head office on June 29, 1965, the shareholders approved the reorganization and consolidation of the two previous classes of Participating Preferred and Ordinary shares of the Company into a single class of new Common

shares without nominal or par value, on the basis of one such new Common share for each previously authorized Participating Preferred share of the par value of \$10 and one such new Common share for each ten previously authorized Ordinary shares of the par value of \$1 each. Supplementary Letters Patent confirming the approved share reorganization were issued effective June 30, 1965, so that your Company's authorized capital now consists of 6,500,000 Common shares without nominal or par value, of which 3,690,388 are issued and outstanding. The new Common shares were called for trading on the Montreal and Toronto Stock Exchanges on July 8, 1965.

Development drilling conducted or participated in by your Company during the year resulted in five oil wells and two gas wells. Exploratory operations included participation in the drilling of eight wells, of which two were still drilling at year end. Of these exploratory wells, four were farmout wells drilled without cost to the Company. In addition, the Company conducted stratigraphic test well drilling and participated in several seismic programs carried out during the year.

The Company's total land holdings were reduced during 1965 due to the surrender of its interests in a relatively large number of exploratory permits in Saskatchewan and the Northwest Territories. Land acquisitions during the year included interests obtained in the Morse River and Rainbow areas of Alberta and in the Laprise, Prespatou and Beaton areas of British Columbia. At a Crown sale held in January, 1966, your Company was successful in acquiring interests in 320 acres located in the Nipisi area and 1,280 acres in the Mitsue area of Alberta.

Your Directors again wish to express their appreciation to the employees and the shareholders of the Company for their valued co-operation and support during the past year.

Respectfully submitted
on behalf of the Board.

March 15, 1966.

President

GENERAL REVIEW OF OPERATIONS

EXPLORATION

Your Company's exploratory operations during 1965 included participation in the drilling of eight wells, of which two were still drilling at year end. In addition, the Company conducted stratigraphic test-well drilling programs in Saskatchewan and Northern Alberta and participated in seismic work carried out in several regions of Alberta and British Columbia.

British Columbia

The Company participated in the drilling of an unsuccessful exploratory well in the Milligan Creek area early in 1965. This well was drilled under a farmin agreement which earned the Company a 25% interest in a total of 1,050 acres in this area.

Alberta

In the West McMurray area, several shallow-depth stratigraphic test wells were drilled in a preliminary examination of your Company's holdings in this Bituminous Sands region during 1965 and it is anticipated that further exploration of this nature will be carried out during the early part of 1966.

Four exploratory wells drilled by other companies were supported by the contribution of acreage from your Company. These farm-out wells, all of which proved non-productive, were located in the Chinchaga, Forestview,

Kakwa and Oberlin areas. With respect to the Chinchaga well, this was drilled under a two-well farmout agreement and the second well was commenced early in 1966. Your Company retains a 50% interest in these farmout lands which are located approximately thirty miles south of the Rainbow Lake oil and gas discovery area.

The Company participated directly in the drilling of one unsuccessful exploratory well in the Glen Leslie area during 1965. Two wells in which participating interests of 8.12% and 48.73% are held were still being drilled at the year end in the Musreau and Smoky areas of Alberta.

Saskatchewan

During 1965 the Company carried out an exploratory program consisting of three stratigraphic test wells drilled on permit acreage in which it holds 100% interest in the Unity area of Saskatchewan. These wells were drilled to an average depth of 2,100 feet to evaluate the Viking zone in which a gas show was previously encountered in a similar stratigraphic test well drilled by the Company in the same area during 1964. However, the tests did not indicate the presence of reserves sufficient for the commercial production of natural gas.

DEVELOPMENT

Your Company drilled or participated in the drilling of a total of eleven development wells during 1965, resulting in five oil wells, two gas wells and four abandonments. An additional development well, in which the Company has an interest of 37½%, was still drilling at the year end in the Rainbow area of Alberta and this well has since been suspended as a potential gas producer. Other areas in which development operations were conducted during the year are as follows:

Peejay, British Columbia

A successful oil development well was drilled by your Company in this area during the early part of 1965. This well, in which French Petroleum has a working interest of 75%, was included in the Peejay Unit No. 1 as of May 1, 1965.

Wildmint, British Columbia

A development well, drilled in this area during 1965 on a 174 acre tract in which your Company holds an interest of 75%, has been capped as a potential gas producer.

Morse River, Alberta

Your Company participated to the extent

of its proportionate 40% interest in six development wells drilled in this area during 1965. Of these, three wells were completed as successful oil producers, one well was abandoned as a result of technical difficulties encountered during completion operations and the remaining two wells were abandoned after failing to find commercial production.

Erskine, Alberta

A successful gas well was drilled in this area in August, 1965, your Company's interest being 25%. It is anticipated that production and sale of gas from this well will commence during 1966.

West Ratcliffe and Oungre, Saskatchewan

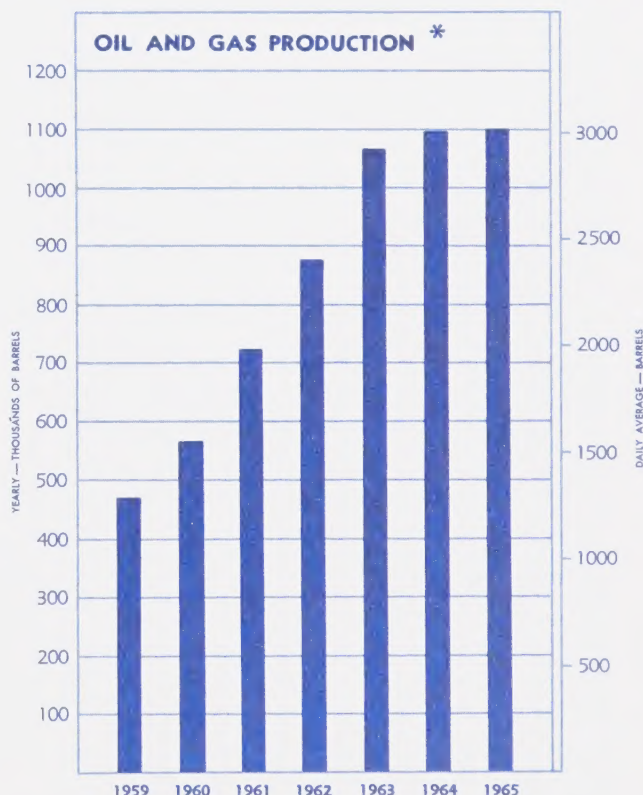
The Company participated in the drilling of one development well in the West Ratcliffe area. This well failed to find commercial production and was abandoned.

In the Oungre area, your Company supported the drilling of one development well during 1965 by contributing acreage and retaining a gross overriding royalty on production. This well was completed as an oil producer.

PRODUCTION

Production rates were lowered during the latter part of the year in several oil producing areas in which your Company has interests, particularly the Crossfield and South Garrington areas, in order to establish the effectiveness of water flood operations. As a result, your Company's total production of crude oil and condensate in 1965 was slightly under the previous year's total, amounting to 988,907 barrels as compared to 999,736 barrels in 1964. This total represents an average of 2,709 barrels per day produced during 1965 compared with a daily average of 2,731 barrels during the preceding year.

Natural gas produced and sold by the Company during the year totalled 2,037,366 mcf, for an average of 5,581 mcf per day. This represents an increase of 16.4% over the total of 1,750,444 mcf (4,783 mcf per day) produced and sold during 1964.



* NATURAL GAS PRODUCTION EQUATED TO CRUDE OIL AND CONDENSATE ON THE BASIS OF 16,000 CUBIC FEET PER BARREL.

LAND

As shown in the following summary of total land holdings, the Company held an interest in 3,915,662 gross acres amounting to 2,491,711 net acres at December 31, 1965, which represents a decrease of 2,419,023 gross acres and 1,673,359 net acres, respectively, from the comparative totals at the end of 1964. These reductions occurred mainly through non-renewal of exploratory permits amounting to approximately 500,000 net acres in the Northwest Territories and the surrender of exploratory permits covering 1,100,000 net acres

in Northwest Saskatchewan, the latter permits having been acquired initially at no cost other than nominal filing fees.

Areas in which acreage interests were acquired during the year include Morse River and Rainbow Lake in the Province of Alberta and Laprise, Prespatou and Beaton in British Columbia. Following expiration of the year under review, the Company acquired in January, 1966, interests in 320 acres in the Nipisi area and 1,280 acres in the Mitsue area of Alberta.

LAND HOLDINGS

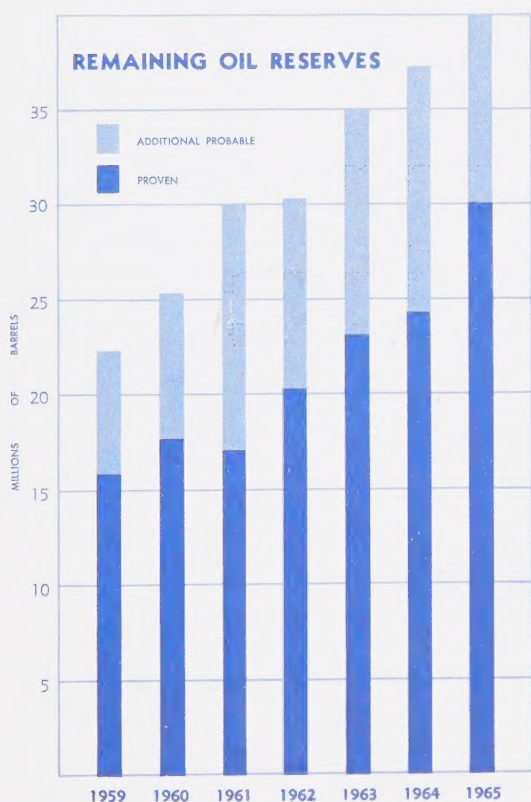
at December 31, 1965

	Petroleum and Natural Gas Leases		Reservations Permits and Licenses		TOTAL	
	Gross	Net	Gross	Net	Gross	Net
British Columbia . . .	121,050	46,832	16,661	6,240	137,711	53,072
Alberta	697,461	238,042	1,232,872	864,402	1,930,333	1,102,444
Saskatchewan	23,789	8,084	151,680	151,680	175,469	159,764
Northwest Territories . .	—	—	1,672,149	1,176,431	1,672,149	1,176,431
	<u>842,300</u>	<u>292,958</u>	<u>3,073,362</u>	<u>2,198,753</u>	<u>3,915,662</u>	<u>2,491,711</u>

RESERVES

Increasing assurance of the effectiveness of water flood recovery systems in operation at Swan Hills, Boundary Lake and other producing areas in which your Company has interests, has allowed Company engineers to transfer a portion of the Company's probable reserves to the proven category. Development operations carried out during the year have also contributed to an increase in proven reserves. As a result, after providing for the past year's production of 988,907 barrels, your Company's remaining proven oil reserves at year end were estimated to be 30,088,489 barrels with additional probable reserves of 9,922,122 barrels. These totals compare with 24,309,501 barrels of proven and 12,900,740 barrels of probable oil reserves at the end of 1964.

Your Company's estimated proven developed gas reserves were 93.4 billion cubic feet as of December 31, 1965, compared to 89.6 billion cubic feet at the end of the previous year.

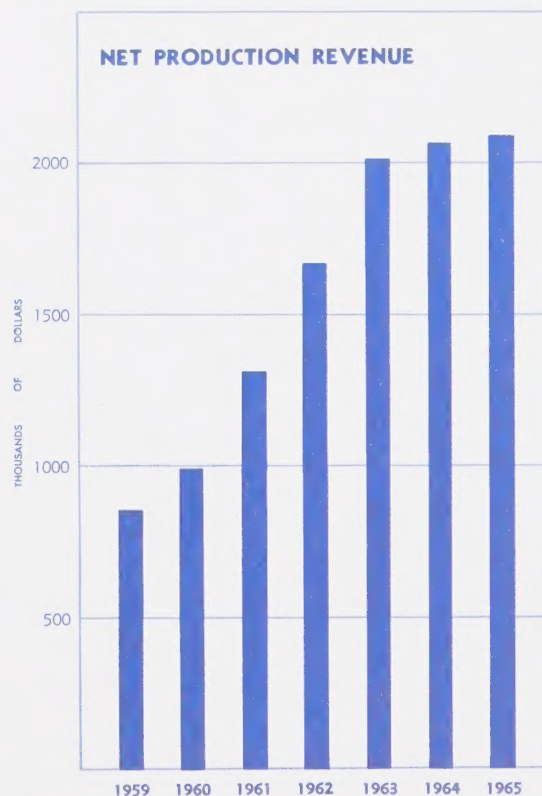


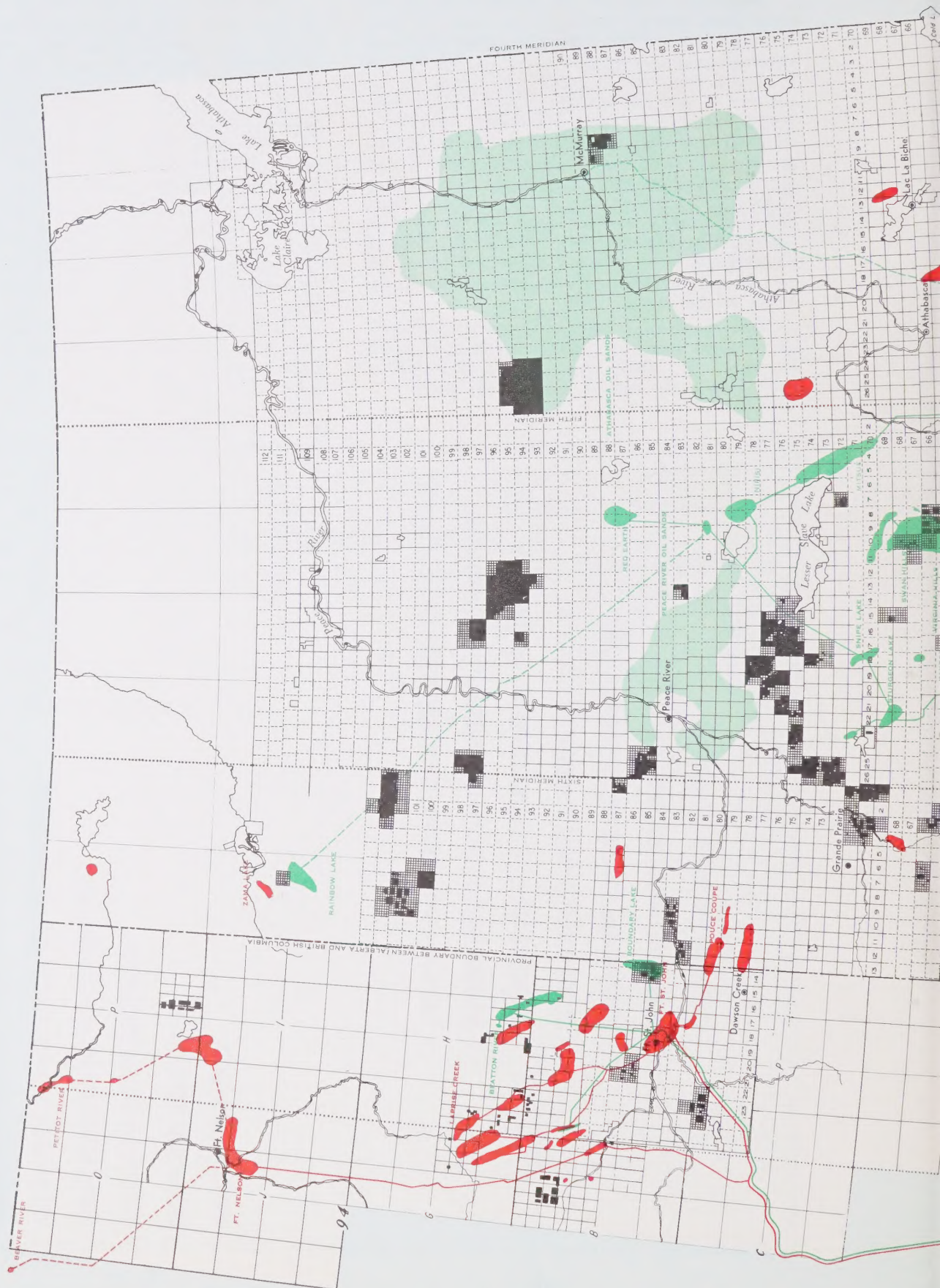
FINANCIAL

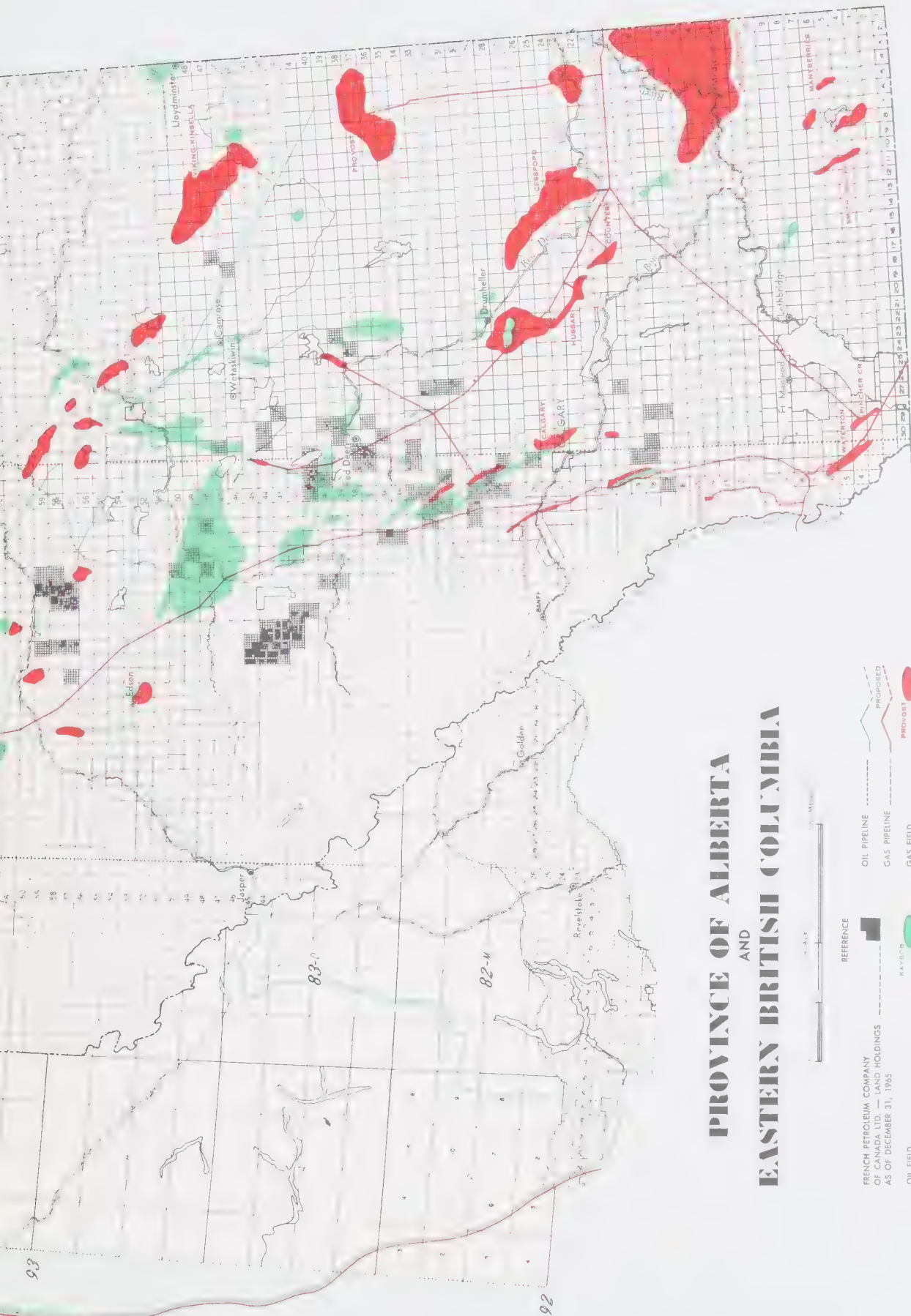
Your Company's income from the sale of crude oil, condensate and natural gas during 1965, less royalty and production costs, amounted to \$2,088,739. Income from all sources was \$2,107,504.

In previous years it has been your Company's policy to charge all expenditures relating to land rentals, general exploration costs, dry hole costs and land surrenders against income in the year incurred. With effect from January 1, 1965, the Company has adopted the full-cost accounting method now in use by the majority of the oil and gas exploration and production companies in the industry. Under this method, the total costs of exploring for and developing oil and gas reserves are capitalized initially and amortization of such costs is then provided annually in relation to the amounts produced from the Company's reserves during the year on a unit-of-production basis. This results in stabilization of exploration charges through the profit and loss account and a financial presentation which reflects more realistically the actual costs of the Company's oil and gas reserves. Using this method of accounting, your Company's operations for the year under review resulted in a profit of \$805,055 which would compare with a profit of \$711,668 calculated on the same basis for 1964.

At December 31, 1965, the Company's working capital amounted to \$667,378.









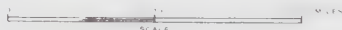
NORTHWEST TERRITORIES AND YUKON TERRITORY

LEGEND

FRENCH PETROLEUM COMPANY
OF CANADA LTD. — LAND HOLDINGS
AS OF DECEMBER 31, 1965

OIL FIELD

GAS FIELD



FRENCH PETROLEUM COMPANY OF CANADA LTD.

Statement of Profit and Loss and Deficit

For the year ended December 31, 1965

(with comparative figures for 1964)

	1965	1964*
Gross revenue from production, less royalties	\$ 2,380,966	\$ 2,331,293
Production expenses	292,227	267,271
	<u>2,088,739</u>	<u>2,064,022</u>
Investment income	18,765	15,665
	<u>2,107,504</u>	<u>2,079,687</u>
Operating departmental expenses	139,276	134,737
Administrative and general expenses	227,541	204,658
Capital reorganization costs	54,457	—
Interest expense	15,073	38,529
	<u>436,347</u>	<u>377,924</u>
PROFIT before undernoted charges	<u>1,671,157</u>	<u>1,701,763</u>
Depletion	741,688	882,549
Depreciation	124,414	107,546
	<u>866,102</u>	<u>990,095</u>
Net profit for the year	805,055	<u><u>711,668</u></u>
Deficit, beginning of year	11,835,851	
DEFICIT, end of year	<u><u>\$11,030,796</u></u>	

*Adapted to full-cost basis of accounting for purposes of comparison. (Note 1)

See accompanying notes to financial statements.

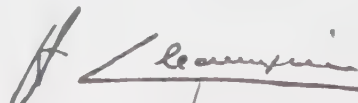
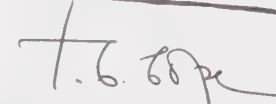


FRENCH PETROLEUM COMPANY OF CANADA LTD.

ASSETS

	1965	1964
CURRENT ASSETS:		
Cash	\$ 176,858	\$ 290,018
Securities, at cost (Market value — \$200,056)	200,056	—
Accounts receivable	436,644	410,207
Materials and supplies, at cost	82,343	130,806
Refundable deposits	206,292	226,852
Other current assets	9,960	41,250
	<u>1,112,153</u>	<u>1,099,133</u>
CAPITAL ASSETS: (Note 1)		
Petroleum and natural gas properties	27,607,010	25,818,146
Less — Accumulated depletion	(3,866,568)	(3,124,880)
Drilling and development in progress	94,998	130,198
Production equipment, at cost	2,180,750	1,864,007
Less — Accumulated depreciation	(760,684)	(663,283)
Other capital assets, at cost	265,668	264,290
Less — Accumulated depreciation	(171,466)	(149,488)
	<u>25,349,708</u>	<u>24,138,990</u>
	<u><u>\$26,461,861</u></u>	<u><u>\$25,238,123</u></u>

APPROVED ON BEHALF OF THE BOARD:

 Director
 Director

BALANCE SHEET at December 31, 1965

(with comparative figures for 1964)

LIABILITIES AND CAPITAL

	1965	1964
CURRENT LIABILITIES:		
Accounts payable and accrued	\$ 372,775	\$ 382,092
Current instalment of bank loan	72,000	72,000
	<u>444,775</u>	<u>454,092</u>
BANK LOAN, secured by an assignment of production and repayable in annual instalments of \$72,000, less amount due within one year	<u>144,000</u>	<u>216,000</u>
SHAREHOLDERS' OWNERSHIP:		
Capital stock — (Note 2)		
Common shares of no par value —		
Authorized — 6,500,000 shares		
Issued — 3,690,388 shares	36,903,882	—
Participating preferred shares of the par value of \$10 each —		
Authorized — 4,000,000 shares		
Issued — 2,480,000 shares	—	24,800,000
Ordinary shares of the par value of \$1 each —		
Authorized — 25,000,000 shares		
Issued — 11,603,882 shares	—	11,603,882
	<u>36,903,882</u>	<u>36,403,882</u>
Deficit, per statement attached	11,030,796	11,835,851
	<u>25,873,086</u>	<u>24,568,031</u>
	<u>\$26,461,861</u>	<u>\$25,238,123</u>

See accompanying notes to financial statements.

FRENCH PETROLEUM COMPANY OF CANADA LTD.

Statement of Source and Disposition of Working Capital

For the year ended December 31, 1965
(with comparative figures for 1964)

	1965	1964*
Source of working capital:		
Profit before depletion and depreciation	\$ 1,671,157	\$ 1,701,763
Less — Profit on disposal of capital assets	8,255	8,560
Cash flow from operations	1,662,902	1,693,203
Sale of participating preferred shares	500,000	1,500,000
	<u>2,162,902</u>	<u>3,193,203</u>
Disposition of working capital:		
Petroleum and natural gas properties — net —		
Acquisition of properties	83,043	655,316
Drilling expenditures	565,976	478,499
Geological and geophysical surveys	792,038	758,516
Lease and reservation rentals	347,807	387,443
	<u>1,788,864</u>	<u>2,279,774</u>
Production and other equipment — net	314,901	262,448
Work in progress — net change	(35,200)	11,463
Payment of bank loan	72,000	72,000
	<u>2,140,565</u>	<u>2,625,685</u>
Increase in working capital during the year	22,337	567,518
Working capital, beginning of year	645,041	77,523
Working capital, end of year	<u>\$ 667,378</u>	<u>\$ 645,041</u>

*Adapted to full-cost basis of accounting for purposes of comparison. (Note 1)

See accompanying notes to financial statements.

FRENCH PETROLEUM COMPANY OF CANADA LTD.

Notes to Financial Statements

December 31, 1965

1. CHANGE IN ACCOUNTING POLICY:

A change has been effected from January 1, 1965 with respect to the accounting for petroleum and natural gas properties. Prior to the current year it was the company's practice to capitalize property acquisition costs, geological and geophysical expenditure and the costs of productive wells and to charge against income as incurred, dry hole costs, exploration expenses which did not result in the retention of properties, lease and reservation rentals, exploration overhead and the cost of properties abandoned at the time of surrender. With the current year, the company having adopted the full-cost method of accounting, all amounts expended with respect to the acquisition, retention, exploration for and development of oil and gas reserves, whether productive or unproductive, have been capitalized as representing the cost of the company's reserves. Proceeds of disposals ordinarily will be applied in full to reduce the costs.

Provision for depletion has been computed by the unit of production method based upon the total costs in relation to overall estimates of proven reserves of oil and gas. In former years depletion was computed on capitalized costs relating to producing properties on a field basis.

Production equipment continues to be accounted for separately and depreciated by the straight-line method at rates designed to amortize costs over the estimated service life of the assets.

If the accounting policy had not been changed, a loss of \$763,615 would have been reported for the 1965 fiscal year.

2. CAPITAL STOCK AND SHARE OPTIONS:

By resolution approved at a meeting of the shareholders on June 29, 1965, the company's authorized capital was altered to 6,500,000 Common shares without nominal or par value and 1,160,388 such shares were issued in exchange for the 11,603,882 Ordinary shares of \$1.00 par value then outstanding and 2,530,000 such shares were issued in exchange for a like number of the then outstanding Participating Preferred shares of \$10.00 par value, 50,000 Participating Preferred shares having been issued for \$500,000 to that date since the previous year end.

There are options outstanding to purchase 40,000 Common shares of the company, these having replaced options granted previously. They are exercisable accumulatively over a four-year period ending June 30, 1969 at a price of \$4.05 per share and include 29,000 shares under option to directors or officers.

3. INCOME TAXES:

Drilling and exploration expenses and property acquisition costs deductible for income tax purposes exceed the income otherwise taxable and no income tax is exigible.

4. STATUTORY INFORMATION:

Fees of directors not holding salaried positions amounted to \$5,250 while the total remuneration of directors holding salaried positions amounted to \$90,848.

Auditors' Report

TO THE SHAREHOLDERS OF
FRENCH PETROLEUM COMPANY OF CANADA LTD.

We have examined the balance sheet of French Petroleum Company of Canada Ltd. as at December 31, 1965 and the statement of profit and loss and deficit for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of profit and loss and deficit present fairly the financial position of the company as at December 31, 1965 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change (with which we concur) in accounting for oil and gas properties as explained in Note 1 to the financial statements.

We have also examined the statement of source and disposition of working capital for the year ended December 31, 1965 and, in our opinion, it presents fairly the changes in working capital for the year.

Calgary, Alberta.
February 21, 1966.

Pricewaterhouse Co.
Chartered Accountants.

